

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

|   |              |                 |                                      |        |
|---|--------------|-----------------|--------------------------------------|--------|
| Local Unit of Government Type<br><input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other |              | Local Unit Name |                                      | County |
| Fiscal Year End   | Opinion Date |                 | Date Audit Report Submitted to State |        |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

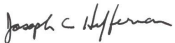
YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

|  |                          |  |                |     |
|--|--------------------------|--|----------------|-----|
| <b>We have enclosed the following:</b>   | Enclosed                 | Not Required (enter a brief justification) |                |     |
| Financial Statements   | <input type="checkbox"/> |  |                |     |
| The letter of Comments and Recommendations   | <input type="checkbox"/> |  |                |     |
| Other (Describe)   | <input type="checkbox"/> |  |                |     |
| Certified Public Accountant (Firm Name)  |                          | Telephone Number                           |                |     |
| Street Address   |                          | City                                       | State          | Zip |
| Authorizing CPA Signature<br> | Printed Name             |  | License Number |     |

**City and County of Midland  
Joint Building Authority  
Annual Financial Statement and  
Auditor's Report**

**For the year ended  
June 30, 2007**



CITY AND COUNTY OF MIDLAND JOINT BUILDING  
AUTHORITY

Annual Financial Statement

and

Auditor's Report

For the year ended

June 30, 2007

Board of Directors

Margaret Riecker - Chairperson

Bridgette Gransden - Secretary

Jon J. Lynch - Treasurer

CITY AND COUNTY OF MIDLAND JOINT BUILDING AUTHORITY  
ANNUAL FINANCIAL STATEMENT  
FOR THE YEAR ENDED  
JUNE 30, 2007

TABLE OF CONTENTS

|  | PAGE |
|--|------|
| REPORT LETTER  | 1    |
| MANAGEMENT'S DISCUSSION AND ANALYSIS                       | 2-3  |
| FINANCIAL STATEMENTS                                       |      |
| Statement of Net Assets                                    | 4    |
| Statement of Revenues, Expenses, and Changes in Net Assets | 5    |
| Statement of Cash Flows                                    | 6    |
| Notes to Financial Statements                              | 7-11 |



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## Independent Auditor's Report

To the Honorable Mayor and City Council  
City of Midland, Michigan

We have audited the accompanying basic financial statements of the City and County of Midland Joint Building Authority as of June 30, 2007 and 2006 and for the years then ended, as listed in the table of contents. These basic financial statements are the responsibility of the City and County of Midland Joint Building Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic purpose financial statements referred to above present fairly, in all material respects, the financial position of the City and County of Midland Joint Building Authority as of June 30, 2007 and 2006 and the change in its financial position opinion and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis (identified in the table of contents) is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquires of management, regarding methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

*Plante & Moran, PLLC*

October 15, 2007

Praxity  
EXCELLENCE  
IN SERVICE

# CITY AND COUNTY OF MIDLAND JOINT BUILDING AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS

## Using This Annual Report

This annual report consists of the statement of net assets, the statement of revenues, expenses, and changes in net assets, and the statement of cash flows. Along with the footnotes, they provide detailed financial information concerning the City and County of Midland Joint Building Authority (the "Authority"). This section, the management's discussion and analysis, is intended to provide an overview of the Authority's financial condition, results of operations, and other key information.

## Financial Overview

In analyzing the Authority's financial position, it is important to recognize the purpose of the Authority. The Authority was formed in 1993 to finance, construct, and operate the Midland Law Enforcement Center. The Authority's income primarily comes from rental income from its two tenants: The City of Midland Police Department (66.99 percent), and the Midland County Sheriff Department (33.01 percent).

The following table shows the major components of net assets as of June 30, 2007, 2006, and 2005:

|                           | 2007              | 2006              | 2005              |
|---------------------------|-------------------|-------------------|-------------------|
| <b>ASSETS</b>             |                   |                   |                   |
| Current                   | \$ 405,383        | \$ 326,450        | \$ 318,357        |
| Noncurrent and restricted | 1,771,192         | 2,008,742         | 2,287,856         |
| Total assets              | <u>2,176,575</u>  | <u>2,335,192</u>  | <u>2,606,213</u>  |
| <b>LIABILITIES</b>        |                   |                   |                   |
| Current                   | 283,550           | 262,599           | 272,696           |
| Noncurrent                | 1,427,900         | 1,690,450         | 1,932,950         |
| Total liabilities         | <u>1,711,450</u>  | <u>1,953,049</u>  | <u>2,205,646</u>  |
| <b>NET ASSETS</b>         |                   |                   |                   |
| Restricted                | 343,292           | 318,292           | 354,906           |
| Unrestricted              | 121,833           | 63,851            | 45,661            |
| Total net assets          | <u>\$ 465,125</u> | <u>\$ 382,143</u> | <u>\$ 400,567</u> |

The 2007 balance of net assets of \$465,125 is allocated \$311,587 to the City of Midland, and \$153,538 to the County of Midland. The same allocation for 2006 would be \$255,998 and \$126,145 respectively. This allocation for 2005 was \$268,340 and \$132,227, respectively.

The entire statement of net assets can be found on page 4 of this report, which will provide a greater level of detail than shown in the above table.

During the year ended June 30, 2007, net assets increased by \$82,982. This was partially planned to increase the net assets restricted for major maintenance. However, utility and maintenance costs were much less than expected, while interest income was greater than expected. The following table summarizes the change in net assets for the years ending June 30, 2007, 2006, and 2005:

|                                     | <u>2007</u>       | <u>2006</u>       | <u>2005</u>       |
|-------------------------------------|-------------------|-------------------|-------------------|
| Revenue                             |                   |                   |                   |
| Rental income                       | \$ 339,823        | \$ 289,862        | \$ 303,792        |
| Finance income from long-term lease | 65,258            | 70,307            | 74,708            |
| Other                               | <u>19,134</u>     | <u>14,828</u>     | <u>7,076</u>      |
| Total revenue                       | <u>424,215</u>    | <u>374,997</u>    | <u>385,576</u>    |
| Expenses                            |                   |                   |                   |
| Building and grounds maintenance    | 104,808           | 93,807            | 91,763            |
| Utilities                           | 126,569           | 112,537           | 100,058           |
| Interest on bonds                   | 65,258            | 70,307            | 74,708            |
| Other                               | <u>44,598</u>     | <u>116,770</u>    | <u>65,367</u>     |
| Total expenses                      | <u>341,233</u>    | <u>393,421</u>    | <u>331,896</u>    |
| Change in net assets                | 82,982            | (18,424)          | 53,680            |
| Net assets - beginning              | <u>382,143</u>    | <u>400,567</u>    | <u>346,887</u>    |
| Net assets - ending                 | <u>\$ 465,125</u> | <u>\$ 382,143</u> | <u>\$ 400,567</u> |

The entire statement of revenues, expenses, and changes in net assets is provided on page 5 of this report.

### **Contacting the Authority's Management**

This financial report is intended to provide the City of Midland and the County of Midland with a general overview of the Authority's finances, and to show the Authority's accountability for the money it receives from its two tenants. If you have questions about this report, the Authority may be contacted for additional information.

CITY AND COUNTY OF MIDLAND JOINT BUILDING AUTHORITY  
STATEMENT OF NET ASSETS  
JUNE 30

| <b>Assets</b>   | <u>2007</u>         | <u>2006</u>         |
|---|---------------------|---------------------|
| Cash  | \$ 140,383          | \$ 81,450           |
| Lease receivable, net of unearned finance<br>income of \$232,477 in 2007 and<br>\$297,735 in 2006 - current               | 265,000             | 245,000             |
| - noncurrent  | 1,427,900           | 1,690,450           |
| Restricted assets (for construction and major<br>maintenance) - cash  | <u>343,292</u>      | <u>318,292</u>      |
| Total assets  | <u>\$ 2,176,575</u> | <u>\$ 2,335,192</u> |
| <br><b>Liabilities</b>  |                     |                     |
| Accounts payable  | \$ 18,550           | \$ 17,599           |
| Bonds payable - net of unamortized<br>issuance discount of \$17,100 in 2007 and<br>\$19,550 in 2006 - due within one year | 265,000             | 245,000             |
| - due after one year  | <u>1,427,900</u>    | <u>1,690,450</u>    |
| Total liabilities   | <u>1,711,450</u>    | <u>1,953,049</u>    |
| <br><b>Net Assets</b>   |                     |                     |
| Restricted for construction   | 18,292              | 103,348             |
| Restricted for major maintenance  | 325,000             | 214,944             |
| Unrestricted  | <u>121,833</u>      | <u>63,851</u>       |
| Total net assets  | <u>\$ 465,125</u>   | <u>\$ 382,143</u>   |

See notes to financial statements



**CITY AND COUNTY OF MIDLAND JOINT BUILDING AUTHORITY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED JUNE 30, 2007**

|                                       | <u>2007</u>              | <u>2006</u>              |
|---------------------------------------|--------------------------|--------------------------|
| <b>Operating revenue</b>              |                          |                          |
| Rental income                         | \$ 339,823               | \$ 289,862               |
| <b>Operating expenses</b>             |                          |                          |
| Audit and legal                       | 3,600                    | 3,500                    |
| Insurance                             | 18,470                   | 18,931                   |
| Utilities                             | 126,569                  | 112,537                  |
| Building and grounds maintenance      | 104,808                  | 93,807                   |
| Equipment maintenance                 | 22,278                   | 94,089                   |
| Other operating expense               | 250                      | 250                      |
| Total operating expenses              | <u>275,975</u>           | <u>323,114</u>           |
| <b>Net operating income (loss)</b>    | <u>63,848</u>            | <u>(33,252)</u>          |
| <b>Nonoperating revenue (expense)</b> |                          |                          |
| Finance income from long-term lease   | 65,258                   | 70,307                   |
| Interest income                       | 19,134                   | 14,828                   |
| Interest on bonds                     | <u>(65,258)</u>          | <u>(70,307)</u>          |
| Total nonoperating revenue (expense)  | <u>19,134</u>            | <u>14,828</u>            |
| <b>Change in net assets</b>           | 82,982                   | (18,424)                 |
| <b>Net assets - beginning of year</b> | <u>382,143</u>           | <u>400,567</u>           |
| <b>Net assets - end of year</b>       | <u><u>\$ 465,125</u></u> | <u><u>\$ 382,143</u></u> |

See notes to financial statements

**CITY AND COUNTY OF MIDLAND JOINT BUILDING AUTHORITY**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30**

|   | <u>2007</u>              | <u>2006</u>               |
|---|--------------------------|---------------------------|
| <b>Cash flows from operating activities</b>                                       |                          |                           |
| Cash received from lease contracts  | \$ 339,823               | \$ 289,862                |
| Payments to suppliers for goods and services                                      | <u>(275,024)</u>         | <u>(328,211)</u>          |
| Net cash provided by (used in) operating activities                               | <u>64,799</u>            | <u>(38,349)</u>           |
| <b>Cash flows from capital and related financing activities</b>                   |                          |                           |
| Cash received from capital lease contract   | 307,808                  | 317,807                   |
| Principal and interest payment on bonds   | <u>(307,808)</u>         | <u>(317,807)</u>          |
| Net cash provided by capital and related financing activities                     | <u>-</u>                 | <u>-</u>                  |
| <b>Cash flows from investing activities</b>                                       |                          |                           |
| Interest received on investments  | <u>19,134</u>            | <u>14,828</u>             |
| <b>Net increase (decrease) in cash</b>  | 83,933                   | (23,521)                  |
| <b>Cash - beginning</b>   | <u>399,742</u>           | <u>423,263</u>            |
| <b>Cash - ending</b>  | <u><u>\$ 483,675</u></u> | <u><u>\$ 399,742</u></u>  |
| <b>Reconciliation of operating income to cash flows from operating activities</b> |                          |                           |
| Operating income (loss)   | \$ 63,848                | \$ (33,252)               |
| Increase (decrease) in current assets and liabilities                             |                          |                           |
| Accounts payable  | <u>951</u>               | <u>(5,097)</u>            |
| Net cash provided by (used in) operating activities                               | <u><u>\$ 64,799</u></u>  | <u><u>\$ (38,349)</u></u> |
| <b>Balance sheet classification of cash</b>                                       |                          |                           |
| Unrestricted cash   | \$ 140,383               | \$ 81,450                 |
| Restricted cash   | <u>343,292</u>           | <u>318,292</u>            |
|   | <u><u>\$ 483,675</u></u> | <u><u>\$ 399,742</u></u>  |

See notes to financial statements

CITY AND COUNTY OF MIDLAND JOINT BUILDING AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007 and 2006

NOTE 1 - REPORTING ENTITY

The City and County of Midland Joint Building Authority (the "Authority") was incorporated in 1993 to finance, construct and operate the Midland Law Enforcement Center. The Midland Law Enforcement Center is owned by the Authority and is leased to the City of Midland Police Department and the Midland County Sheriff Department. The Authority is governed by a three person board with the City and County each appointing one member and with the third member being mutually appointed.

The financial operations of the Authority are presented as a joint venture in the annual financial statements of both the City of Midland and the County of Midland. In accordance with generally accepted accounting principles, there are no component units included in these financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Authority conform to generally accepted accounting principles as applicable to governmental building authorities. The following is a summary of the more significant policies:

A. Basis of Presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – For State and Local Governments*, issued in June 1999.

B. Fixed Assets

The Authority has lease contracts with the City of Midland and the County of Midland covering the Midland Law Enforcement Center, which was constructed by the Authority (see Note 4). Since these leases represent financing transactions, the Authority has recorded the contracts as a receivable in lieu of recording the Law Enforcement Center facilities as assets.

CITY AND COUNTY OF MIDLAND JOINT BUILDING AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007 and 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Accounting

The Authority uses the accrual method of accounting except for interest on the lease contracts receivable and bonds payable, which are recorded as revenue and expense on their due dates. The construction costs of the Law Enforcement Center were capitalized as incurred. At the time the facility was complete and turned over to the City and County, those costs were reclassified based on a capital lease signed by the City and County and recorded at the net present value of future lease contract payments. Any additional expenses relating to construction and not provided for at the time the facility was completed are expensed as incurred.

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Authority has elected not to follow private-sector standards issued after November 30, 1989.

D. Restricted Cash

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Authority's policy is to first apply restricted resources.

E. Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

CITY AND COUNTY OF MIDLAND JOINT BUILDING AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007 and 2006

NOTE 3 - DEPOSITS AND INVESTMENTS

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended), authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

| <u>Deposits</u>              | <u>2007</u> | <u>2006</u> |
|------------------------------|-------------|-------------|
| Net Carrying Amount          | \$ 483,674  | \$ 399,742  |
| Bank Balance                 | 484,893     | 399,742     |
| Federal Depository Insurance | 100,000     | 100,000     |
| Uninsured/Uncollateralized   | 384,893     | 299,742     |

The Authority held no investments at June 30, 2007 and 2006.

NOTE 4 - LEASE CONTRACTS AND RESTRICTED ASSETS

Noncancellable long-term leases are in effect with both the City of Midland and the County of Midland. Operating leases provide for payment of rents amounting to 64.8 percent of the Authority's annual operating costs by the City and 35.2 percent by the County. The City and County are also obligated for 66.99 percent and 33.01 percent, respectively, of the Authority's debt service costs.

The leases covering debt service costs are financing transactions under which the Authority issued general obligation limited tax bonds for the purpose of constructing the Midland Law Enforcement Center. Rental payments under the lease agreements, which are pledged as collateral for the bonds, have been set at the amount estimated as necessary to meet principal and interest payments due on the bonds. Upon retirement of the bonds, ownership of the facility will be turned over to the City and County.

CITY AND COUNTY OF MIDLAND JOINT BUILDING AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007 and 2006

NOTE 4 - LEASE CONTRACTS AND RESTRICTED ASSETS (continued)

Under the agreements, bond proceeds are restricted for the purpose of construction or making bond principal and interest payments. In addition, certain amounts are required to be set aside in a reserve for major maintenance, the use of which is restricted for the purpose of financing repairs to the major structural and system components of the Law Enforcement Center.

Details of the lease contracts covering debt service costs that the Authority has entered into with the City of Midland and the County of Midland are as follows:

|  | <u>2007</u>          | <u>2006</u>          |
|--|----------------------|----------------------|
| Lease contract receivable, interest included | <u>\$1,925,377</u>   | <u>\$ 2,233,185</u>  |
| Net receivable, on Statement of Net Assets   | <u>\$ 1,692,900</u>  | <u>\$ 1,935,450</u>  |
| Interest rate used for lease contract        | <u>same as bonds</u> | <u>same as bonds</u> |
| Assets restricted for:                       |                      |                      |
| Construction                                 | \$ 18,292            | \$ 103,348           |
| Major maintenance                            | <u>325,000</u>       | <u>214,944</u>       |
| Total  | <u>\$ 343,292</u>    | <u>\$ 318,292</u>    |

CITY AND COUNTY OF MIDLAND JOINT BUILDING AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007 and 2006

NOTE 5 - BONDS PAYABLE

The Authority's 1994 Bonds were issued to finance construction of the Midland Law Enforcement Center. In March 2003, the 1994 Bonds with principal balance remaining of \$2,550,000 and an average interest rate of 6 percent were refunded for \$2,665,000 in new bonds with a 3.4415 percent average interest rate. Bond principal and interest payments are included in the tenants' rental rate and are secured by the full faith and credit of both municipalities. The bonds were sold at a 1 percent discount, which will be amortized over the 10-year life of the bonds. The payment schedule for the bonds is as follows:

| <u>Fiscal<br/>Year End<br/>June 30</u> | <u>Principal<br/>Maturing<br/>May 1</u> | <u>Interest<br/>Rate</u> | <u>Interest<br/>Due<br/>Nov 1</u> | <u>Interest<br/>Due<br/>May 1</u> | <u>Total<br/>Principal<br/>and Interest</u> |
|--|---|--------------------------|-----------------------------------|-----------------------------------|---|
| 2008                                   | 265,000                                 | 2.60                     | 28,341                            | 28,341                            | 321,682                                     |
| 2009                                   | 260,000                                 | 3.00                     | 24,896                            | 24,896                            | 309,792                                     |
| 2010                                   | 280,000                                 | 3.25                     | 20,996                            | 20,996                            | 321,992                                     |
| 2011                                   | 300,000                                 | 3.50                     | 16,446                            | 16,446                            | 332,892                                     |
| 2012                                   | 295,000                                 | 3.65                     | 11,196                            | 11,196                            | 317,392                                     |
| 2013                                   | 310,000                                 | 3.75                     | 5,813                             | 5,814                             | 321,627                                     |
|  | <u>\$1,710,000</u>                      |                          | <u>\$107,688</u>                  | <u>\$107,689</u>                  | <u>\$1,925,377</u>                          |

Note 6 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to property loss, torts and errors and omissions. The Authority participates in the Michigan Municipal League Property and Liability Pool for claims relating to property and liability. The Pool programs operate as common risk-sharing/management programs for local units of government in Michigan. Member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts. The Authority's maximum deductible for property and liability coverage is \$1,000 per occurrence.